

## **ECONOMIC INEQUALITY IN MALAYSIA: THE ENEMY WITHIN**

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**ABSTRACT:** The worsening inequalities across and within many countries have been an important part of the discussions among the international community in general and welfare economists in particular. The frequency of the recent economic crises across the globe had demonstrated that certain social groups are the hardest hit and disabled from recovering satisfactorily, despite swift national efforts and regional support. This research paper is part of a larger project viewing the current inequalities prevalent in Malaysia from a normative perspective through the lenses of Islamic Economics. It is aimed at providing complementary policy prescriptions in managing the widening socio-economic inequalities between the different marginalized groups. Given the conceptual nature of this research work, the emphasis remains in the critical literature reviews and latest report findings, both national and international. The ultimate objective of this study is to better understand the reality of economic inequalities and their long-term adverse effects on society perceived as vulnerable. Thus the main concern of the present work is to be clearly aware of the dangers of socio-economic inequalities and the various alternatives existing under the Islamic Economic System in managing inevitable inequalities. Key findings of this research paper include the recent relevant evidences of increasing economic inequality globally and Malaysia, the need for the stakeholders in Malaysia to begin considering the implications of economic inequalities critically and the effective application of several readily available schemes and tools in Islamic economics.

*Keywords:* equity, inequality, inclusiveness, human capital development, rights

### **INTRODUCTION**

The extent of inequality, and what to do about it, are among the most hotly debated issues in economics. Equality matters because it carries an intrinsic value for most of the world's faiths and ideologies, religious or secular. Every faith and ideology has normative views on how much inequality is tolerable, or desirable. Islam for instance, permits inequalities resulting from differences in natural endowments such as talent and other God given faculties. It is equity that Islam emphasizes upon, although extreme inequalities are among the major concerns of redistributive schemes laid out by the *Shariah*. Normative theories of social arrangements that have stood the test of time also seem to demand equality of something. Some forms of inequality generate costs to society whereas others entail benefits. Arguably, inequality is a type of market failure which is said to occur when there is an inefficient allocation of resources in a free market. On the one hand, inequality is necessary for providing incentives in a free market economy, for without a degree of inequality there would be economic stagnation and lack of enterprise. Inequality promotes reward based performance, i.e. productivity and encourages entrepreneurs to take risks and set up new business. The challenge lies in the ability to identify the turning point at which the costs of inequality start to exceed its benefits.

Debates on inequality seem to become more intense in periods of rapid structural transformation, both in advanced economies and in developing countries. While discussions are often framed in either-or terms as to whether the government should tackle inequality or boost growth first, there is also a tendency to focus on simple, aggregate indicators of inequality which hide as much as they reveal (Le Houérou, 2015).

The World Bank Report (2015) on 'Addressing Inequality in South Asia' takes a fresh look at inequality in one of the most dynamic regions in the world, by focussing on well-being, exploring both monetary (income, consumption and wealth) and non-monetary (basic services in health, education, and infrastructure, as well as subjective assessments) dimensions of inequality. Apparently, some countries that do not appear to be particularly unequal when focusing on consumption per person are host to both extravagant wealth at the top and appalling human development outcomes at the bottom. When standard monetary indicators are taken at face value, South Asia has modest levels of inequality, with Gini coefficients for consumption per capita ranging between 0.28 and 0.40, much